

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 14

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: January 5, 2000

INFORMATION: X

PRESENTER(S): Mr. Desrochers

The table below contains Alternative Investment activity for the month of November 1999 and historical information for selected time periods.

| | Month Ended 11/30/99 | Fiscal Year To Date | Past One Year | Past Three Years | Past Five Years |
|-----------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| <u>Commitments:</u> | | | | | |
| Partnerships | \$ 495,000,000 | \$ 710,000,000 | \$ 1,447,625,000 | \$ 3,404,065,413 | \$ 4,447,645,009 |
| Co-Investments | 0 | 24,999,996 | 24,999,996 | 24,999,996 | 71,999,996 |
| Secondaries | 0 | 70,773,417 | 80,067,245 | 80,067,245 | 80,067,245 |
| | \$ 495,000,000 | \$ 805,773,413 | \$ 1,552,692,241 | \$ 3,509,132,654 | \$ 4,599,712,250 |
| <u>Contributions:</u> | | | | | |
| Partnerships | \$ 143,057,316 | \$ 451,460,229 | \$ 892,098,619 | \$ 1,964,352,686 | \$ 2,518,013,847 |
| Co-Investments | 0 | 24,999,996 | 24,999,996 | 24,999,996 | 71,999,996 |
| Secondaries | 87,000 | 57,692,402 | 65,454,231 | 65,454,231 | 65,920,928 |
| Mgmt. Fee (Outside) | 1,880,137 | 3,692,084 | 9,892,205 | 24,853,954 | 32,967,160 |
| | \$ 145,024,453 | \$ 537,844,711 | \$ 992,445,050 | \$ 2,079,660,867 | \$ 2,688,901,930 |
| <u>Distributions:</u> | | | | | |
| Cash | \$ 69,681,824 | \$ 220,952,132 | \$ 486,940,874 | \$ 1,099,814,134 | \$ 1,383,910,341 |
| Stock | 119,898,795 | 207,889,342 | 353,815,558 | 563,063,855 | 726,112,021 |
| | \$ 189,580,619 | \$ 428,841,474 | \$ 840,756,432 | \$ 1,662,877,989 | \$ 2,110,022,363 |
| Stock Sales | \$ 59,361,945 | \$ 148,104,783 | \$ 288,808,093 | \$ 457,230,539 | \$ 609,898,834 |

Attachment 1 provides an executive summary of action taken under delegation of authority for a commitment of \$95 million to J.H. Whitney IV, L.P.

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
J. H. WHITNEY IV, L.P.

| | |
|-------------|--|
| Action: | Commit \$95 million to J.H. Whitney IV, L.P. (JHW IV), which represents 10% of the total capitalization of the fund. |
| Background: | <p>J.H. Whitney & Co. was founded in 1946 by John Hay Whitney and functioned exclusively as a manager of Whitney family money throughout most of its history. The firm began investing with a small group of limited partners following Mr. Whitney's death in 1982, and created its first conventional equity limited partnership in 1990 (JHW I). Since 1990, Whitney partners have formed three private equity limited partnerships with total investments of approximately \$695 million in private equity capital. As of September 10, 1999, these investments have an estimated market value of \$1.2 billion, with over \$420 million in realizations.</p> <p>CalSTRS is currently an investor in one J. H. Whitney partnership. CalSTRS committed \$17.3 million to JHW I in 1990.</p> |
| Analysis: | <p>JHW IV qualifies as a follow-on fund as identified in the Alternative Investments' policies.</p> <p>JHW IV will invest in and provide assistance to companies in the growth capital niche (equity expansion). These growth-oriented companies typically have revenues of \$5 million to \$200 million and require an equity partner to reach the next stage of development. JHW IV will restrict its investments to companies operating in five complementary industry areas: communications, internet/technology, healthcare, transforming industries (mature industries that will benefit from the implementation of enhanced management techniques, new distribution</p> |

methodologies and new technology) and consumer business. The portfolio companies in which the partnership will invest will be located principally in the United States. The fund may invest up to 30% of capital commitments in international markets—these will be concentrated in Western Europe and to a lesser degree in the developed markets of Asia (primarily Japan). J.H. Whitney is noteworthy for its strong proprietary deal flow and the successful execution of a strategy that usually results in the firm being the first outside investor in a target company. This generally allows the firm to avoid competing with other providers of equity capital and thereby achieve enhanced returns on its investments.

- Investment Thesis:
- 1) The JHW IV fund is consistent with the approved target to invest 7% of the Alternative Investment portfolio in equity expansion partnerships.
 - 2) The J.H. Whitney Funds have consistently generated good investment returns. The returns of JHW II have exceeded the Venture Economics Upper quartile Benchmark, while the performance of JHW I has been midway between the Venture Economics median and the Upper Quartile Benchmark. (Because JHW III is so new (1998), it is too soon to be able to make a meaningful evaluation of the fund's returns.)
 - 3) The Principals are very experienced equity expansion specialists.
 - 4) The J. H. Whitney investment strategy provides a good fit in the CalSTRS portfolio. There are very few portfolio company holdings in common with CalSTRS' current partnerships.
 - 5) The General Partners are offering co-investment opportunities to CalSTRS with no fees and no carried interest.
 - 6) Staff has received a positive investment recommendation from Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. A positive written recommendation by the Alternative Investment's advisor and CalSTRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit \$95 million to J.H. Whitney IV, L.P. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Seth C. Hall
Investment Officer

Date_____

Approved:

Real DesRochers
Director of Alternative Investments

Date_____

Patrick Mitchell
Chief Investment Officer

Date_____

